GOVERNMENT OF INDIA
FINANCE
LOK SABHA

STARRED QUESTION NO:486
ANSWERED ON:20.04.2001
STOCK MARKET CRASH
RAGHUNATH JHA;RAM JEEVAN SINGH

Will the Minister of FINANCE be pleased to state:

(a) whether soon after the presentation of budget by the Finance Minister there was crash of stock market in various stock exchanges;

(b) if so, the details thereof, stock exchange-wise;

(c) the reasons for the crash and the details of inquiry instituted by the Government in this regard;

(d) whether several investigating agencies like IT, Revenue Intelligence, Enforcement Directorate and CBI have raided the residences of several stock brokers in various parts of the country;

(e) if so, the details of document, jewellery, property deals etc., unearthed from these stock-brokers, stock-broker-wise;

(f) whether the Government have initiated several measures to streamline the working of stock-exchanges; and
(g) if so, the details thereof?

Answer

MINISTER OF FINANCE (YASHWANT SINHA)

(a) to (g): A statement is laid on the table of the House.

STATEMENT REFERRED TO IN REPLY TO LOK SABHA STARRED QUESTION NO. 486 FOR ANSWER ON 20th April, 2001 RAISED BY SHRI RAGHUNATH JHA AND SHRI RAMJIVAN SINGH REGARDING STOCK MARKET CRASH

(b) & (b) On 27th February, 2001 i.e., pre-budget, the BSE Sensex closed at 4069.68, NSE Nifty closed at 1295.55 and the CSE Fifty index closed at 128.94. Thereafter, the movement of the BSE Sensex, NSE Nifty and the CSE Fifty was as follows:

DATE	SENSEX Close Value	NSE NIFTY Close Value	CSE INDEX Close Value
27-FEB-01	4069.68	1295.55	128.94
28-FEB-01	4247.04	1351.40	132.95
01-MAR-01	4271.65	1358.05	137.05
02-MAR-01	4095.16	1306.35	133.92
05-MAR-01	3998.12	1271.45	130.50
07-MAR-01	4046.89	1290.50	130.61
08-MAR-01	4056.94	1292.85	132.03
09-MAR-01	3881.96	1254.75	129.40
12-MAR-01	3767.89	1197.95	125.23
13-MAR-01	3540.65	1124.70	117.60

As can be seen there was a substantial fall on 2.3.2001 and thereafter the downward trend continued.

(c) In the context of market movements in late February and early March there were apprehensions about stock price manipulation by certain entities. SEBI has submitted a preliminary report in this regard to the Ministry of Finance on April 15, 2001.

(d) & (e) The Central Board of Direct Taxes has intimated that search actions were conducted on 23.3.2001 at the business and residential premises of the following brokers:-

2. Ketan Parekh
3. Nirmal Bang
4. Anand Rathi
5. Rakesh Jhunjhunwala

6. Shanker Sharma
7. R.S. Damani

The details of seizures in consequence of search operations are mentioned as under:-

Unexplained Cash Jewellery

Ketan Parekh Rs. 0.60 lakh
Anand Rathi Rs. 6.38 lakh
Rakesh Jhunjhunwala Rs. 9.50 lakh
R.S. Damani Rs. 3.00 lakh

Jewellery

Anand Rathi Rs. 6.38 lakh

Other assets: Shares

Anand Rathi Rs. 14.77 lakh

Apart from the above, some incriminating documents have also been seized.

The Central Bureau of Investigation has intimatedthat on the basis of a specific complaint from the Chief Vigilance Officer, Bank of India, Mumbai, a case RC. 3/E/2001-BSFC/MUM was registered against Ketan Parekh and 10 others for defrauding Bank of India, Stock Exchange Branch, Mumbai to the tune of Rs. 137 crore by using the pay orders of Madhavpura Mercantile Co-operative Bank ltd., Mandvi Branch, Mumbai. Searches were conducted at the official and residential premises of Ketan Parekh and associate firms in Mumbai. Several incriminating documents pertaining to the case were seized. No cash or jewellery was seized.

(f) and (g) : Government has announced the following measures to improve institutional mechanisms and trading practices in the stock markets:

(k) demutualisation of stock exchanges by which ownership, management, and trading membership would be segregated from each other. This would help towards:

• further professionalisation of the management of the exchanges and elimination of conflict of interests;

• improving adherence to the best practices of Corporate Governance;

• enhancing the ability of stock exchanges to raise funds from the market to modernise the exchanges and provide better investor service.

(ii) extension of rolling settlement to 200 category ``A` stocks in Modified Carry Forward Scheme, Automated Lending and Borrowing Mechanism and Borrowing and Lending Securities Scheme by July, 2001. Following this, SEBI has directed all stock exchanges as follows :

• All scrips which are included in the ALBM/BLESS/MCFS in a stock exchange will be traded only in the compulsory rolling settlement on a nationwide basis i.e. on all stock exchanges from July 2, 2001.

• In addition, if there is any scrip which is included in the BSE 200 list, but not covered by the above list, will also be included in the compulsory rolling settlement on a nationwide basis.